



OFFICE OF MAYOR JERRY SANDERS

M E M O R A N D U M

DATE: February 20, 2009

TO: Honorable Mayor Jerry Sanders

CC: Honorable City Council
Jay Goldstone, Chief Operating Officer
Kris Michell, Chief of Staff
Mary Lewis, Chief Financial Officer
Deputy Chief Operating Officers
Julie Dubick, Director of Policy
Andrea Tevlin, Independent Budget Analyst

FROM: Job Nelson, Director of Intergovernmental Relations *JN*

RE: Federal Economic Stimulus Package

This week President Obama signed a \$787 billion stimulus package into law. The City's lobbying team, under the direction of the Mayor worked very hard to make sure that the City and region would have funding opportunities in a number of areas including transportation, housing and public safety.

As was mentioned in prior memos we distributed to the Council on the proposed stimulus package, a portion of the money that city will be eligible to receive will be directly sent to the City in the form of block grants including Community Development Block Grants (CDBG), Energy Efficiency and Conservation Block Grants (EECBG), Emergency Shelter Grants (ESG) and Byrne Justice Assistance Grants (JAG).

There are additional funds that may benefit the City, in particular infrastructure funds for transit, highways and water projects, that will be sent to the state and then in some cases funneled down to regional organizations such as SANDAG and MTS. The last category of funding for which the City will be eligible are competitive funds for which the City applies.

Below is our initial analysis (complemented by analysis produced by our federal lobbying team of Patton Boggs) of opportunities broken down by issue area.

GENERAL INFRASTRUCTURE

Community Development Block Grants: (Formula)

CDBG is a block grant program that funds a variety of infrastructure and programs including libraries, park facilities and other public buildings, as well as street and road repairs. While the funding for this program is less than was initially requested by the U.S. Conference of Mayors, the conference committee side with the House and left in \$1 billion for CDBG allocation (the Senate had no money going to CDBG). Initial calculations (subject to change) are that the City will receive approximately \$4 million in additional CDBG funding through the stimulus. The legislation requires that recipients must prioritize use for projects that can award bid-based contracts within 120 days from funding availability. The Department of Housing and Urban Development (HUD), which oversees the CDBG program, must establish requirements to expedite use of funds. Unlike regular CDBG cycles, the legislation specifies that HUD may waive or specify alternative requirements to expedite or facilitate use of the funds.

Army Corps of Engineers: (Discretionary allocations to Corps projects by Secretary of Army)

The Stimulus Act set aside \$2 billion for Army Corps of Engineering construction projects. The City has several Corps projects that could receive funding under this set aside. The City's lobbying team will be working with the Corps and our congressional delegation to get those projects funded.

International Boundary and Water Commission: (Discretionary allocations by State Dept.)

The legislation authorizes \$220 million for the water quantity program to meet immediate repair and rehabilitation requirements. The Secretary of State is required within 90 days to submit a detailed spending plan for these funds. There are both water quality and water quantity projects funded through the IBWC along the border.

Border Construction: (Discretionary allocations by GSA)

The act sets aside at least \$300 million of \$5.55 billion for border stations and land crossings. The majority of the remainder will be spent on making federal buildings green including border stations. The majority of funds must be obligated by September 30, 2010. These funds could be allocated to all three ports of entry but the most likely recipient would be the San Ysidro expansion for which we have already secured approximately \$200 million.

TRANSPORTATION INFRASTRUCTURE

Transit: (Formula apportionments by DOT/FTA)

The Stimulus Act will fund \$6.9 billion in transit projects across the country on a formula basis. This money will need to be spent on capital projects and Recipients have **180 days** to obligate 50 percent of funds or they will be redistributed. Additionally, will have 1 year to obligate all funds. Locally, these funds will be the responsibility of MTS and SANDAG. The nature of these funds is a bit problematic in that operating funds were not included and in fact transit operators in California will be hurt again by the budget cutbacks that will severely curtail supplemental funding used for operations.

Highways: (Formula apportionments to States)

The act will provide \$27.5 billion for highway projects that would be eligible under the STP program. The City's lobbying teams advocated successfully for a sub-allocations based upon population. The final bill sub-allocates 30% of funding to urbanized areas of the State with an urbanized area population of over 200,000, these funds are not subject to the redistribution of amounts required 120 days following the date of apportionment clause. Other funds will be on a tighter timeline because the legislation requires that states must obligate 50% of funds within **120 days** or they will be redistributed to other states. SANDAG will be the lead agency in programming these funds.

Amtrak: (Amtrak to disburse)

Funding will be available from Amtrak for Amtrak related capital projects. The agency will be receiving \$1.3 billion to spent on repair, rehabilitation, or upgrade of railroad assets or infrastructure, and for capital projects that expand passenger rail capacity including the rehabilitation of rolling stock. None of the funding can be used to subsidize operating losses of Amtrak. The San Diego region is home to the Los-San corridor—the second busiest Amtrak corridor in the nation.

High Speed Rail: (Discretionary Grants to States from DOT)

The stimulus package sets aside \$8 billion to used first for high speed rail and then for other rail projects. The funds are available through **2012**. While these funds will go to the state and then ultimately to the High Speed Rail authority, when combined with Prop 1A funds and the money set aside for high speed rail last year in the Feinstein legislation, these funds enhance the likelihood that a high speed rail connection between San Diego, Los Angeles, San Francisco and Sacramento will happen. It is envisioned in the "Destination Lindbergh" plan that high speed rail will connect Lindbergh Field with Los Angeles.

Supplemental Discretionary Grants for a National Surface Transportation System: (Competitive Grants to States, MPO's or Local Governments from DOT)

The act sets aside \$1.5 billion to provide funding for projects of national or regional significance including highway or bridge projects, public transportation, passenger and freight rail and port infrastructure investments, including projects that enhance connectivity. The minimum grant award is \$20 million and the maximum grant award is \$300 million. The funds are available through 2011. Priority will be given to projects that require Federal funds to complete financing and to projects that are expected to be completed in 3 years. The Department of Transportation will publish criteria within 90 days, require submittal of applications **within 180 days** and announce selections within 1 year of enactment.

WATER INFRASTRUCTURE

State Revolving Loan Funds: Clean Water and Drinking Water: (Formula to States)

The stimulus bill provides supplemental capital funding for State Revolving Funds (SRF) including \$4 billion for Clean Water SRFs and \$2 billion for Drinking Water SRFs. These funds could be used on a number of water and wastewater projects within the City. Projects that use these stimulus funds are required to be under contract or construction within one year.

Each State shall use at least 50 percent of the funds to provide additional subsidization in the form of forgiveness of principle, negative interest loans, and grants. A heavy emphasis will be placed on SRF projects that advance green infrastructure; water or energy efficiency improvements or other environmentally innovative activities.

Bureau of Reclamation: (Competitive grants)

The legislation provides \$1 billion in supplemental funding for water and water related resource activities and projects, in particular ground water, water reclamation and water reuse projects. The City of San Diego regularly seeks Bureau of Reclamation money for water projects. Some of these funds will be formula driven to regional offices.

HOUSING

Neighborhood Stabilization: (Competitive grants through HUD)

The act sets aside \$2 billion to provide funding to for purchase, rehabilitation, and re-occupancy of foreclosed homes. The program was created last year in the housing stimulus bill and the City of San Diego was awarded \$9.4 million for a local NSP program. Congress decided to make the program competitive this time around. HUD is required to obligate all funding within one year and recipients must expend half of their funds within **two years** and all of their funding within **three years**. The City should be very competitive for these funds given that the housing commission already has a HUD approved program in place.

Emergency Shelter Grants: (Formula)

Under the economic stimulus plan, according to our estimates HUD will be awarding approximately \$6 million in ESG grants to the City. This is a considerable increase from our \$600,000 FY 2008 allocation. These funds can be used to provide funding for foreclosure prevention and re-housing; case management and social services; renovation, major rehabilitation, or conversion of buildings for use as emergency shelters or transitional housing; shelter operating costs; and related activities. The City will be required to expend at least 60 percent of funds within **2 years** of fund availability, and 100 percent within **3 years**.

Home Investment Partnerships (Formula to state then competitive grants)

The stimulus package provides \$2.25 million to be used for activities that purchase, construct and rehabilitate affordable housing for rent. This grant could also provide funds for capital investments in low-income housing tax credit projects. The state must commit at least 25 percent of funds within **one year**, 75 percent in **two years**, all funding in **three years**. Priority is to be given to projects that are expected to be completed within 3 years.

Lead Paint Removal (Competitive through HUD)

The act makes available \$100 million in competitive grants for local government and non-profit lead hazard reduction programs. Funds will be awarded first to qualified applicants that had applied under the Lead Hazard Reduction Program Notices of Funding Availability for fiscal year 2008 but were not awarded due to funding limitations. The remaining funds will be added to the Lead Hazard program announced in the 2009 NOFA. Recipients must spend 50 percent of funds in 2 years and all funds in three years.

ECONOMIC DEVELOPMENT

Economic Development Administration: (Competitive through EDA)

Under the plan, the Economic Development Administration will provide \$150 million to leverage private investment and stimulate employment in economically distressed communities. These funds are designed to help the long-term economic development of areas with severe unemployment and low family income, as well as to aid in the development of public facilities and private enterprises to help create new, permanent jobs. The City of San Diego has an aggressive economic development program which may be able to take advantage of this category of funding.

PUBLIC SAFETY

Justice Assistance Grants: (Formula)

Under the economic stimulus plan, according to our estimates the Department of Justice will be awarding approximately \$4 million in JAG grants to the City. This is a considerable increase from our \$230,000 FY 2008 allocation. Additionally the City will be sharing an additional \$5 million with the County. These funds can be used to provide funding for broad-based public safety prevention, intervention, and suppression activities; law enforcement personnel; equipment and facilities (including crime laboratories); community policing; prosecution and court programs; corrections and community corrections programs; drug treatment and enforcement; planning and evaluation; and technology improvements.

Community Oriented Policing Services (COPS): (Competitive)

The act provides \$1 billion to be awarded competitively in COPS grants. Those grants can be used to provide funding for hiring and rehiring of additional career law enforcement officers. Unlike the usual COPS funding the bill eliminates the \$75,000 cap on salary and benefits per officer and it eliminates the 25% local match requirement. The City would still be required to enter into a maintenance agreement to guarantee the position for an additional year at the end of three years. Funds will be available until **September 30, 2010.**

Firefighter Assistance Grants: (Competitive grants through FEMA)

The stimulus bill sets aside \$210 million to be awarded by FEMA in competitive grants to provide funding for modifying, upgrading or constructing non-Federal fire stations. The maximum grant award is \$15 million.

Brush/Wildfire Management: (Competitive grants through Forest Service)

The act provides \$500 million to be used for competitive project grants to provide funding for hazardous fuels reduction.

ENERGY

Energy Efficiency and Conservation Block Grants: (Formula and competition)

The stimulus act creates a new block grant to assist States and local governments to reduce fossil fuel emissions and total energy use, and improve energy efficiency in the transportation, building, and other appropriate sectors, funding financial incentives, grants for retrofits,

transportation conservation, building codes, energy distribution technologies and landfill gas capture. The act provided \$3.2 billion in funding-- \$2.8 billion allocated by formula and \$400 million competitively. We estimate that the City will receive approximately a \$10 million EECBG block grant.

Advanced Energy Credit: (Tax credit program)

The Act establishes a new 30 percent investment tax credit for qualified investment in a "qualifying advanced energy project." A qualifying advanced energy project is a project that re-equips, expands or establishes a manufacturing facility for the production of (a) property designed to be used to produce energy from renewable resources, (b) fuel cells, microturbines, or energy storage systems for use with electric or hybrid electric motor vehicles, (c) electric grids to support the transmission of intermittent sources of renewable energy, (d) property designed to capture and sequester carbon dioxide emissions, (e) property designed to refine or blend renewable fuels or to produce energy conservation technologies, (f) new qualified plug-in electric drive motor vehicles, qualified plug-in electric vehicles or components designed to for use with such vehicles, or (g) other advanced energy property designed to reduce greenhouse gas emissions. These tax credits along with other financial incentives contained within the bill will be extremely beneficial in stimulating the regions emerging clean tech cluster.

Clean Renewable Energy Bonds ("CREBs")

The Act authorizes an additional \$1.6 billion of clean renewable energy bonds to finance facilities that generate electricity from the following sources: wind, closed-loop biomass open-loop biomass, geothermal, small irrigation, hydropower, landfill gas, marine renewables and trash combustion facilities. This authorization will be subdivided into thirds: 1/3 will be available for qualifying projects of State/local/tribal governments; 1/3 for qualifying projects of public power providers; and 1/3 for qualifying projects of electric cooperatives.

Qualified Energy Conservation Bonds

The Act authorizes an additional \$2.4 billion of qualified energy conservation bonds to finance State, municipal and tribal government programs and initiatives designed to reduce greenhouse gas emissions and other qualified conservation purposes. The bill clarifies that qualified energy conservation bonds may be issued to make loans and grants for capital expenditures to implement green community projects and that for programs in which utilities provide ratepayers with energy efficient property and recoup the costs of the property over an extended period of time. These bonds may be used for the City's AB 811 program.

Tax Credits for Energy-Efficient Improvements to Existing Homes

The Act extends through 2010 tax credits for improvements to energy-efficient existing homes. The bill increases the amount of the credit to 30 percent of the qualified energy efficiency improvements. The Act eliminates the property-by-property dollar caps on the credits and provides an aggregate cap of \$1,500 on all property qualifying for the credit in a taxable year. The Act also updates the energy-efficiency standards for property qualifying for the credit. This provision will provide an additional incentive for residents to take advantage of the City's AB 811 program.

LOCAL GOVERNMENT BONDING

Tax Credit Bonds:

This provision allows state and local governments the option of issuing tax-credit bond instead of tax-exempt bond. Bonds issued under this provision are known as Build America Bonds. Tax credit bonds like tax-exempt bonds provide a subsidy to local governments by reducing the cash interest payments that a local government must make on its debt. It also allows direct payment from the federal government equal to the subsidy that would have otherwise been received.

The Act provides transitional rules for coordination with State law. The Act provides that until a State provides otherwise, the interest on any taxable governmental bond and the amount of any credit under such bond is treated as exempt from Federal income tax for State income tax law purposes.

The Act adds a new Code section that permits regulated investment companies to pass through to their shareholders credits from tax credit bonds. The new provision also allows the tax credits from tax credit bonds to pass through to beneficiaries of real estate investment trusts (REITS).

Modification to Tax-exempt Interest Expense Rules for Financial Institutions:

The City's lobbying team actively lobbied for changes to the rules which limited how much of financial institutions portfolio could be tied up in tax-exempt bonds. The Act provides a new 2 percent safe harbor for the interest disallowance rule for financial institutions up from 1 percent. Under the safe harbor, tax-exempt obligations issued during 2009 and 2010 that do not exceed 2 percent of the adjusted basis of the financial institution's assets are not taken into account for purposes of the interest disallowance rule. This will benefit local governments in issuing bonds buying creating a larger market.

Government Contractor Withholding:

Prior to the passage of the stimulus bill, local governments were facing a new costly mandate from the federal government in the coming years. For payments made after December 31, 2010, current law requires withholding at a 3 percent rate on certain payments made by Federal, State and local governments to contractors providing property or services to the government. This mandate imposes significant local expenses for accounting system modifications and administrative costs. The withholding is required regardless of whether the government entity making the payment is the recipient of the property or services.

The Act delays for one year (through December 31, 2011) the application of the 3 percent withholding requirement on government payments for goods and services to allow the Treasury Department to study the impact of the provision on government entities and taxpayers. The Act follows the Senate version of the bill; the House version would have repealed the withholding requirement permanently.

MISCELLANEOUS

In addition to the funds mentioned above and the significant amount of money that will be coming to the San Diego Unified School District. We also expect to see funding for a number of federal buildings and projects around the region including construction projects for our local military bases, coast guard, border patrol and courthouses. Additionally, research dollars and capital dollars for research facilities may make their way to local universities. Construction projects generate jobs and revenues for the region.